



The Conference Board

R4105-6

Volume 12, Number 12

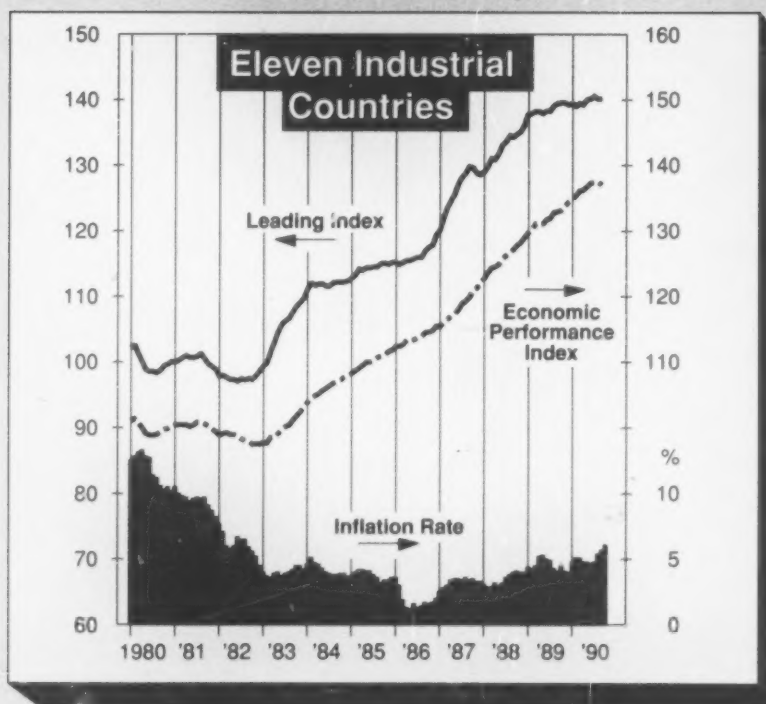
November/December 1990

International Economic Scoreboard

INSIDE:

- **Recession or Slow Growth Ahead
for Most Countries**
- **Inflation — Still Rising but
Outlook Seems Better**
- **Three Countries Going in
Different Directions — Germany,
Japan, and Australia**

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate 1976-86	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
		6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
Eleven countries	3	5	4	2	1	1	1	Expansion continuing, leaders weak	Sept.
Ten countries (U.S. excl.)	3	7	6	4	2	2	1	Expansion continuing, leaders weak	Sept.
North America (2)	3	1	2	-1	-1	0	0	Expansion stopped, leaders weak	Sept.
Europe (4)	2	7	6	4	0	1	2	Expansion continuing	Sept.
Pacific Region (5)	4	7	7	4	4	3	0	Expansion continuing, leaders weak	Sept.
United States	3	0	1	-2	-2	1	-1	Expansion stopped, leaders weak	Oct.
Canada	3	2	1	-1	-2	-4	-2	Expansion stopped, leaders weak	Sept.
Germany	2	6	7	5	4	3	5	Expansion continuing	Oct./Sept.
France	2	8	7	6	1	4	0	Expansion continuing, leaders weak	Sept./Oct.
United Kingdom	2	5	3	1	0	-2	0	Expansion stopped, leaders weak	Oct.
Italy	2	6	4	3	0	-1	3	Expansion continuing	Aug./Sept.
Japan	4	9	8	5	2	3	-1	Expansion continuing, leaders weak	Oct.
Australia	3	2	-2	-6	-6	-6	-7	Expansion stopped, leaders weak	Oct.
Taiwan, R.O.C.	8	-1	-1	1	5	-1	-4	Expansion stopped, leaders weak	Oct.
Korea, R.O.K.	7	13	7	7	2	2	3	Expansion continuing	Sept./Oct.
New Zealand	2	2	-1	-3	-1	-3	-4	Upturn stopped, leaders weak	Sept.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

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Overview

Sluggishness Persists

The global business cycle continues to go nowhere. The 11-country performance index shows a below-trend 2 percent growth rate and the leading index — as it has been doing all through 1990 — is creeping upward at just 1 percent. This pattern seems more like a trance than a business cycle.

Not so inflation. The surge of oil prices is pushing the general price level higher almost everywhere except in parts of Asia. Through October, the 11-country inflation rate is 6.1 percent, up from 4.8 percent six months ago. However, a recent decline in spot crude oil prices suggests that the acceleration of general inflation will soon give way to a slowdown, especially if the global economy stays soft.

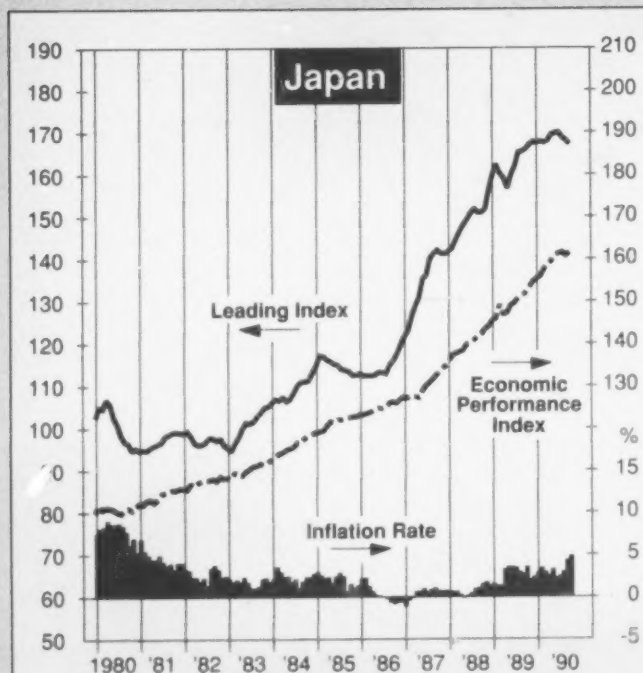
Nationally, weakness in the leading indexes is the prevailing pattern. The rate of change is zero in France and the United Kingdom, -1 percent in the United States and Japan, -2 percent in Canada, and -4 percent in Taiwan and New Zealand. Australia, where the leading index is falling at a 7 percent rate, is again the economy with the steepest and most persistent weakness (see page 4). The exceptions on the plus side are Germany (see page 5), Italy and Korea. The most significant change in direction since our last report took place in Japan (see page 4).

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	6 mos.* ago	3 mos.* ago	Latest month*	Current Reading on Inflation	Latest Month Covered
<i>annual rates, percent</i>						
Eleven countries	5.3	4.8	4.8	6.1	Rising	Oct.
Ten countries (U.S. excl.)	5.2	4.5	4.4	5.8	Rising	Oct.
North America (2)	5.6	5.0	4.9	6.5	Rising	Oct.
Europe (4)	6.6	5.4	5.4	6.5	Rising	Oct.
Pacific Region (5)	3.4	3.5	3.3	5.2	Rising	Oct.
United States	5.5	4.7	5.9	6.2	Rising	Nov.
Canada	6.5	4.3	4.0	5.1	Rising	Oct.
Germany	2.9	2.5	2.8	3.1	Rising	Nov.
France	7.3	3.0	2.9	4.6	Rising	Oct.
United Kingdom	7.3	11.1	11.1	11.1	High but Steady	Oct.
Italy	11.2	5.5	6.6	6.8	Rising	Nov.
Japan	2.5	2.5	2.4	4.8	Rising	Oct.
Australia	8.4	7.7	7.4	5.1	Falling	Aug.
Taiwan, R.O.C.	4.4	4.8	4.9	4.3	Falling	Oct.
Korea, R.O.K.	8.1	11.0	9.8	8.6	High but Falling	Nov.
New Zealand	11.8	5.9	6.4	5.4	Falling	Aug.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

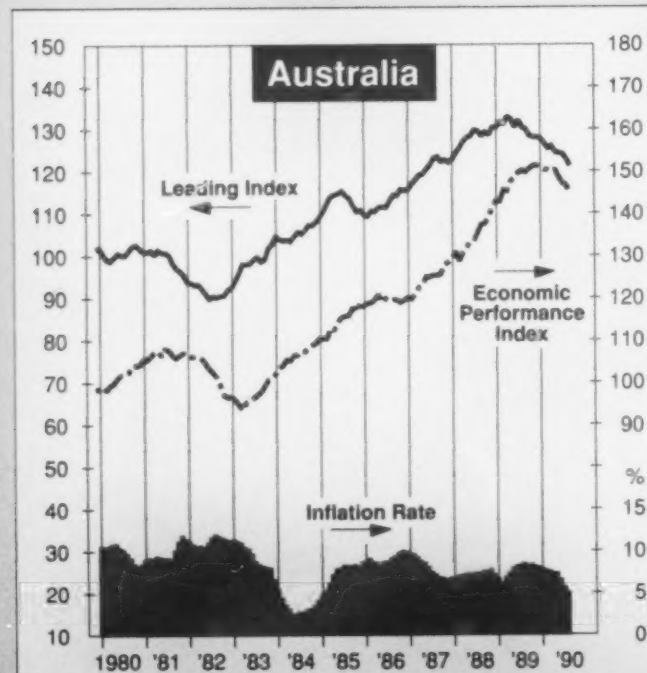
Countries



Discouraging Omens

Prospects for continued advances in the Japanese economy have soured markedly in the past three months. The leading index, which was still expanding modestly through July, has slumped 2 percent through October. Among the component series that make up the leading index, the biggest loser was common stock prices, but business failures, new orders for machinery and construction, and new-dwelling-units-started all contributed to the decline.

The inflation rate also took a turn for the worse, accelerating to a 4.8 percent rate in October, Almost double the figure six months earlier. Oil prices were the main cause, and that effect isn't likely to last long. Even if only temporary, however, it darkens the outlook. Both the leading index and the inflation signals are consistent with a recent survey of chief executives of Japanese companies, 71 percent of whom said they expect Japan's long expansion to end during 1991.



Onward and Downward

The cyclical indexes for Australia are once again the bleakest of our 11 industrial countries. The performance index is down 4 percent since its peak in January 1990, while the leading index has been dropping since May of 1989 — down 9 percent in 17 months. This continuing drop in the leaders, which intensified in September and October, suggests the Australian recession has yet to run its full course.

About the only encouraging sign is the slowdown in inflation — 5.1 percent in August, down from 7.7 percent half a year earlier. It's not much, but even small blessings must be counted.



Bright Spot

Germany is the one bright star in the economic firmament. Despite some statistical choppiness here and there since the crisis in the Persian Gulf began, the German data still look favorable. Both the performance index and the leading index continue to rise at a sturdy 5 percent rate. For the leading index, the contrast with neighboring France and the United Kingdom is remarkable; at the latest reading, the leading index of each of those countries shows a zero percent change.

Additionally, the German inflation performance continues to outshine the rest of the world. Despite the surge in oil prices, German inflation has accelerated only moderately and, at 3.1 percent, remains below all the other economies reported here.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call “coincident” series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

David Chon, Editor

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1989-90

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)				11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	